

**Summary Report on Audits of USAID Assistance
Provided Under the Central America and the
Caribbean Emergency Disaster Recovery Fund
(CACEDRF) Supplemental Appropriation**

Report No. 1-598-02-003-S

September 3, 2002

San Salvador, El Salvador



*Assistant Inspector
General for Audit*

September 3, 2002

MEMORANDUM

FOR: AA/LAC, Adolfo A. Franco

FROM: AIG/A, Bruce N. Crandlemire /S/

SUBJECT: Summary Report on Audits of USAID Assistance Provided Under the Central America and the Caribbean Emergency Disaster Recovery Fund (CACEDRF) Supplemental Appropriation (Report No. 1-598-02-003-S)

This report summarizes the results of the Office of Inspector General's audits of CACEDRF activities over the life of the program. The report does not contain any recommendations for your action. Your comments on the draft report are included in their entirety in Appendix II.

From the beginning, efforts to maintain accountability for CACEDRF funds have benefited from collaborative efforts involving mission and Bureau staff, Congressional stakeholders, and OIG staff. I would like to take this opportunity to express my sincere appreciation for your exceptional efforts and those of your staff, both in Washington and in the field, throughout the duration of the CACEDRF program.

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Summary of Results

This report summarizes the results of the Office of Inspector General's (OIG's) audits of the \$621 million Central America and the Caribbean Emergency Disaster Recovery Fund (CACEDRF) program. The report discusses the results of financial audits and performance audits of CACEDRF activities.

A major conclusion of the report is that a risk-based approach, which includes activities directed toward preventing problems from occurring as well as detecting them through audits and investigations, can be effective in making sure that USAID funds are spent effectively and for agreed-upon purposes. As part of its oversight effort, the OIG conducted a series of risk-based audits that included quarterly concurrent financial statement audits of activities deemed to be of high risk and annual financial statement audits of moderately and lower risk activities. All activities were subject to coverage by performance audits conducted by OIG auditors. In addition, the OIG provided fraud awareness training to 2,141 participants in the CACEDRF countries. This training was directed to employees of USAID and its partners who were managing USAID funds on a day-to-day basis and had first-hand knowledge of how USAID funds were being used. The training helped ensure that the participants knew how to prevent and detect common fraud schemes and were aware of their responsibility to report suspected fraud to the OIG. Another key component of the OIG's oversight program was the use of concurrent audits for high-risk activities. For these concurrent audits, audit work was performed throughout the year and quarterly audit reports were produced, providing a deterrent effect and substantially reducing the possibility that accountability problems could take hold without being detected.

The OIG's financial statement audit reports on the CACEDRF program have disclosed \$7.6 million in questioned costs, 229 reportable internal control conditions, and 223 instances of material noncompliance with agreement terms and applicable laws and regulations. Over time, as auditors found problems and worked with grantees and contractors to correct them through the audit recommendation follow-up process, grantees and contractors improved their administrative procedures and systems of internal control. As a result, over the course of the program, questioned costs as a percentage of total audited costs fell significantly from 7 percent to 2 percent. (See page 12.)

The OIG's performance audits addressed four types of questions:

- Were activities implemented on schedule? The OIG conducted 11 audits that examined whether activities were on schedule. Four of these audits concluded that the activities were on schedule, five audits found that certain activities examined were on schedule while others were not, and two audits concluded that the activities audited were not on schedule. (See page 14.)

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- Were host country contracting competition requirements followed? In both cases where the OIG examined this issue, we found that the host government complied with competition requirements. (See page 19.)
 - Did missions monitor CACEDRF activities in accordance with USAID policies? The OIG examined mission monitoring of CACEDRF activities through eight audits. Four of these audits showed that the missions were appropriately monitoring the activities in accordance with USAID policies. In three cases, the auditors concluded that monitoring was generally adequate but that some monitoring deficiencies existed. In one case, the auditors concluded that activities were not adequately monitored. (See page 19.)
 - Did missions process payments and advances in accordance with applicable laws and regulations and USAID policies and procedures? The OIG performed three audits to examine whether missions were processing payments and advances in accordance with applicable laws and regulations and USAID policies and procedures. Recognizing that several missions would face dramatically increased workload due to the CACEDRF program, these audits were intended to be more preventive or proactive in nature and provide USAID management with assurance that the missions could handle the additional workload associated with CACEDRF payments and advances while still exercising reasonable scrutiny over payment and advance requests. All three of the audits showed that the missions were generally processing payments and advances correctly but that some problem areas existed. (See page 21.)

The LAC Bureau's comments on our draft report noted that the report did not contain any recommendations for the Bureau's action and expressed appreciation for the role played by the OIG in the CACEDRF program. (See page 21.)

Background

Hurricane Mitch was an extremely destructive storm that struck Central America at the end of October 1998. This hurricane caused massive loss of life and damage to homes, schools, roads, water and sanitation systems, and other infrastructure. Honduras was the hardest hit, with 13,709 people reported killed and missing and approximately 1.9 million people affected by the disaster. Nicaragua also suffered severe damage, with 3,747 people reported killed and missing and 867,752 people displaced by the storm. Guatemala and El Salvador suffered lesser, but still serious, damage from the hurricane. Economic damages throughout Central America were estimated from \$5 billion to \$10 billion – amounts far beyond the capacity of the local governments to absorb.

The U.S. Government responded immediately with emergency relief supplies, emergency Food for Peace aid, and other assistance totaling more than \$300

million. This emergency assistance helped relieve suffering and meet some of the most pressing needs for shelter, food, clean water, and medical supplies.

To address longer-term reconstruction needs, and respond to the effects of other hurricanes in the Caribbean and an earthquake in Colombia, the U.S. Congress passed a supplemental appropriation to establish a \$621 million Central America and the Caribbean Emergency Disaster Recovery Fund (CACEDRF).¹ An informal agreement was reached between the Congress and USAID that the funds provided under the supplemental appropriation would be spent by December 31, 2001.

The Congress included \$5.5 million in the supplemental appropriation to help USAID monitor the program and \$1.5 million to help the OIG provide close audit and investigative oversight of the program. The OIG used these funds mainly to hire five auditors through personal services contracts and to pay travel costs associated with audits and investigations of CACEDRF activities. The Congress also provided \$500,000 to the U.S. General Accounting Office (GAO) to monitor the program.

Accountability Concerns

In the aftermath of this unprecedented disaster, all of the concerned parties – officials in the U.S. State Department, officials in USAID, members of the U.S. Congress, and governments and civil society organizations in Central America – saw a need for strong accountability and control mechanisms to make sure that the assistance reached the intended beneficiaries. Given the level of suffering in the region, it was easy to see how corruption, if it became widespread, could lead to political crisis and instability. Factors that contributed to increased risk under the CACEDRF program were the large size of the program, the need to spend funds quickly to meet pressing needs, and the weak internal control and law enforcement mechanisms found in many countries in the region.²

OIG Strategy

The overarching objective of the OIG's strategy was to make sure that USAID assistance funds would be well spent. More specifically:

- Funds would be spent for agreed-upon purposes.

¹ A total of \$34 million was transferred to other federal agencies under the authority of Section 632(a) of the Foreign Assistance Act of 1961. USAID is not responsible for monitoring or reporting on the uses of these funds.

² Transparency International's 1999 Corruption Perceptions Index included five countries that received major portions of the \$621 million supplemental appropriation. Four of the five countries were in the bottom third of the rankings, indicating that corruption was perceived as a significant threat.

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- Expenditures would be reasonable, allocable, and necessary.
 - USAID's programs would be efficient and effective in achieving planned results.

In addition to helping ensure that USAID funds would be well spent, the OIG aimed to help discourage corruption in general. Since resources are freely exchangeable in an economic sense, it would make little sense to spend large amounts of USAID funds in countries that are losing substantial resources to corruption.

Proactive Activities – In planning its oversight activities, the OIG emphasized prevention and deterrence. Working with USAID missions, the OIG undertook the following proactive initiatives:

- Educated USAID staff, grantees, and contractors about fraud and made sure that they understood their responsibility to report evidence of fraud and corruption. The OIG provided fraud awareness training to 2,141 participants in the CACEDRF countries.
- Helped USAID design its activities to minimize the risk of fraud and corruption.
- Helped USAID partners establish appropriate fraud prevention policies, including policies regarding financial disclosure, ethics, employee conduct, and fraud reporting.
- Evaluated the internal controls established by USAID and its contractors and grantees.
- Assisted USAID officials with their monitoring efforts. For example, the OIG helped draft scopes of work for agreed-upon procedures engagements³ and provided numerous interim reports and letters to management to alert them to urgent implementation problems requiring immediate attention.

³ An agreed-upon procedures engagement is one in which an accounting firm issues a report of findings based on specific procedures designed to test an assertion or assertions. Agreed-upon procedures engagements can be useful when a mission needs an accounting firm to perform certain well-defined monitoring or testing procedures on a program or activity (e.g., end-use checks of commodities) but does not require an audit opinion.



Photograph: OIG staff provide fraud awareness training to the staff of a USAID grantee.

Audit and Investigations Activities – While the OIG’s oversight strategy emphasized prevention and deterrence, no control system, no matter how well conceived, can provide absolute assurance of preventing all serious problems from occurring. Accordingly, substantial resources were also devoted to detecting accountability problems through audits and investigations.

The OIG used a risk-based approach to prioritize its workload and determine what type of audit coverage would be appropriate for each individual activity funded under the supplemental appropriation. The OIG performed risk assessments of each activity financed under the supplemental appropriation, examining four areas for each activity:

- **Implementing Entities** – What experience did USAID have with each entity and what was the audit history of the entity?
- **Implementation Arrangements** – Were there any special arrangements that will either increase or decrease risk?
- **Nature of Activities Financed** – What were the inherent risks affecting the activities?
- **Amount of Funding** – All other things being equal, larger activities were considered riskier and received a higher level of audit coverage.

After assessing risk in each of these areas, the OIG made judgments about what type of audit coverage would be cost effective and useful. Higher-risk activities were covered by concurrent financial statement audits. Lower-risk activities received annual financial statement audits.⁴ All activities were subject to coverage by performance audits performed by OIG auditors. More information on each type of audit follows.

- **Concurrent Financial Statement Audits** – These audits, like all other audits of USAID funds supervised by the OIG, were performed in accordance with *Government Auditing Standards* issued by the U.S. General Accounting Office (GAO). The reports issued for concurrent audits included the auditor’s opinion on the fund accountability statement (a financial statement that shows budgeted and actual expenses by line item, as well as any questioned costs identified by the auditor), a report on internal control, a report on compliance with agreement terms and applicable laws and regulations, a review report on cost sharing, and a report on the status of recommendations from prior audits. The concurrent audits supervised by the OIG differed from an annual financial statement audit in that audit work was done throughout the year and quarterly audit reports were required.

Concurrent audits were performed by private accounting firms, by Supreme Audit Institutions (SAIs)⁵, or by the U.S. Defense Contract Audit Agency (DCAA).⁶ The audits were closely supervised by the OIG. Specifically, the OIG approved the scope of work, approved the audit program including detailed audit steps to be performed by the auditors, performed periodic on-site monitoring of the field work performed by the auditors, attended entrance and exit conferences wherever possible, approved the draft audit report, and approved the final audit report and issued it as an OIG work product. The OIG required that audits by local accounting firms be supervised by staff from their U.S. partner firms and required that the audit reports be signed in the name of the U.S. firm.

- **Annual Financial Statement Audits** – As with the concurrent audits described above, these audits were performed in accordance with *Government Auditing Standards*. The reports included the auditor’s opinion on the fund accountability statement, a report on internal control, a report on compliance,

⁴ Some low-risk activities carried out by U.S. contractors and grantees were covered by organization-wide audits conducted pursuant to Office of Management and Budget Circular No. A-133 or cost incurred audits in the United States carried out by the U.S. Defense Contract Audit Agency. Also, activities carried out by directly by Federal Government employees were not subject to financial statement audits although they were subject to internal audits conducted by the USAID OIG or their own agency OIGs.

⁵ SAIs may perform audits of USAID funds where they have been found capable to perform such audits by the OIG and where they have signed a memorandum of understanding (MOU) with the OIG and the USAID mission. The SAIs in two countries covered by the CACEDRF program (Honduras and El Salvador) have signed such an MOU.

⁶ DCAA performs audit services for other federal agencies on a reimbursable basis.

a review report on cost sharing, and a report on the status of recommendations from prior audits (as well as a calculation of the final indirect cost rate and a report on the entity's general purpose financial statements where necessary). As with concurrent audits, the audits were performed by private accounting firms, by SAIs, or by DCAA. However, instead of the quarterly reporting required for concurrent audits, these audits had annual reporting by the auditors.

- **Internal Audits** – Internal audits by the OIG provided an independent assessment of the performance of the programs carried out under the supplemental appropriation. These audits examined whether activities were implemented on schedule, whether host country contracting was accomplished in accordance with USAID competition requirements, whether missions properly monitored activities, and whether missions processed payments and advances in accordance with USAID policies and procedures and applicable laws and regulations.
- **Investigations Activities** – OIG investigations staff were involved in:
 - ◆ Presenting fraud awareness briefings to USAID staff, grantees, and contractors.
 - ◆ Providing intelligence to missions concerning individuals and organizations that might not be trustworthy partners.
 - ◆ Conducting a proactive review of host country contracting actions to look for unusual patterns of bidding activity.
 - ◆ Investigating allegations of criminal activity or serious misconduct.

Coordination Activities – Successfully carrying out the OIG's strategy involved a sustained, coordinated effort by the OIG, USAID's Bureau for Latin America and the Caribbean (LAC Bureau), the missions receiving funds under the supplemental appropriation, audit firms, SAIs, and other important partners and stakeholders.

The OIG's risk assessments were prepared in collaboration with the missions who were responsible for managing the supplemental funds. Missions played an important role in the audit program by funding audit contracts, awarding contracts for concurrent audits and agency-contracted audits, approving audit contracts for recipient-contracted audits, and following up with grantees and contractors to make sure that audit recommendations were fully implemented.

At the outset of the program, and at intervals throughout the program, the OIG met with GAO staff to help ensure that our respective oversight programs were

complementary to the greatest extent possible, to avoid scheduling conflicts, and to make sure that both GAO and the OIG were apprised of significant audit results.

The USAID OIG also coordinated its oversight efforts with the Inspectors General of the other Federal agencies participating in the CACEDRF program. For funds that are obligated by USAID through agreements with other Federal agencies (under Section 632 (b) of the Foreign Assistance Act), the USAID OIG is responsible for compliance with the audit requirements of the Inspector General Act of 1978, as amended, in coordination with the Inspector General of the recipient agency.

The OIG met with the other major donor organizations that provided assistance in response to the Hurricane Mitch disaster. The OIG provided them with detailed information on the OIG's oversight strategy and details on the timing of each audit planned under the program.

Finally, OIG staff met periodically with Congressional staff and LAC Bureau management throughout the duration of the program, and the Inspector General testified before the House Committee on Appropriations, Subcommittee on Foreign Operations, on March 21, 2001. These periodic communications helped ensure that the OIG's oversight efforts were responsive to the needs of our customers and stakeholders.

Objective

As part of its fiscal year 2002 audit plan, the Regional Inspector General/San Salvador conducted this audit to answer the following audit objective:

What were the results of the OIG's audits of the CACEDRF program?

Appendix I describes the audit scope and methodology.

Findings

What were the results of the OIG's audits of the CACEDRF program?

As of June 30, 2002, the OIG has issued 236 financial statement audit reports on the program. These financial audit reports disclosed \$7.6 million in questioned costs, 229 reportable internal control conditions, and 223 instances of material noncompliance with agreement terms and applicable laws and regulations. The results of these audits are discussed in the section below.

As of June 30, 2002, the OIG has issued 14 internal audit reports on the CACEDRF program. The results of these audits are discussed in the section beginning on page 14.

The OIG's oversight program has been successful in helping limit accountability problems to a relatively low level.

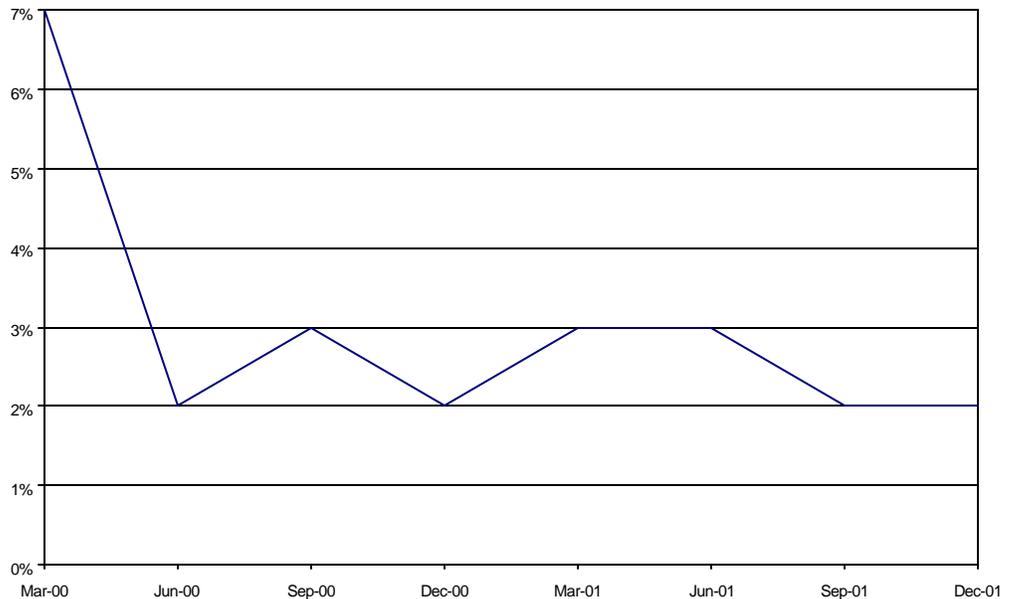
Financial Statement Audit Results

As indicated above, financial statement audit reports on the CACEDRF program disclosed \$7.6 million in questioned costs, 229 reportable internal control conditions, and 223 instances of material noncompliance with agreement terms and applicable laws and regulations.

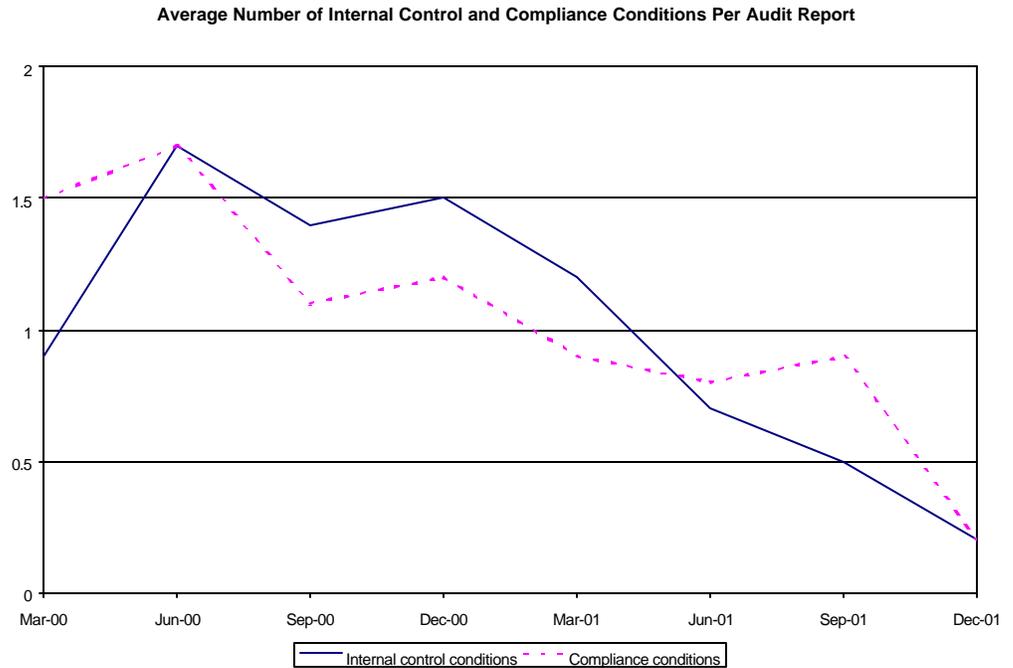
The OIG placed major emphases on identifying higher risk programs and conducting concurrent audits, training, and activities aimed at preventing accountability problems from occurring wherever possible. At the same time, recognizing that not all problems can be prevented, the OIG used concurrent audits to surface accountability problems at an early stage when the amounts involved were relatively small and it was relatively easy to correct the problems.

Under the concurrent audit program, audit reports were issued at three-month intervals, making it unlikely that accountability problems could grow out of control before being detected. In addition, over time, as auditors found problems and worked with grantees and contractors to correct them through the audit recommendation follow-up process, grantees and contractors improved their administrative procedures and systems of internal control. As a result, over the course of the program, questioned costs as a percentage of total audited costs fell significantly from 7 percent to 2 percent.

Questioned Costs as a Percentage of Audited Costs



At the same time, the average number of internal control findings per audit report fell from 0.9 to 0.2 and the average number of compliance findings per audit report fell from 1.5 to 0.2.



In summary, the financial audit program helped limit accountability problems to a low level and helped surface these problems at an early stage where they were still relatively easy to correct.



Photograph: A Honduran engineer pointing out school reconstruction works to an OIG manager.

Internal Audit Results

The OIG's internal audit program addressed several different questions, each of which is addressed separately in the following sections. One of the most important questions, given the number of persons affected by the disasters, and the short period allowed to carry out CACEDRF programs, was whether services were provided to beneficiaries on schedule. In two cases, where programs audited by the OIG were in the initial contracting stage, the OIG examined whether host governments followed USAID competitive requirements in awarding host country contracts. In other cases, where contracting had substantially been completed and more assistance activities were actually underway, the OIG examined whether missions were properly monitoring CACEDRF programs. Finally, the OIG undertook three audits that were more preventive or proactive in nature, which aimed to verify that missions had the trained staff, controls, and procedures in place to disburse funds in a timely manner while still subjecting payment requests to reasonable scrutiny.

Were activities implemented on schedule? The OIG conducted 11 audits that examined whether CACEDRF activities were on schedule. Four of these audits concluded that the activities were on schedule, five audits found that certain activities examined were on schedule while others were not, and two audits concluded that the activities audited were not on schedule. Some specific information from each audit follows:

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- A September 2000 audit of the \$8 million housing program in the Dominican Republic showed that the housing program was on schedule to complete 2,250 new houses and repair 1,541 houses. USAID/Dominican Republic originally planned to repair 2,750 houses. However, many houses requiring repair had already been repaired by the occupants or through other available programs. In addition, housing repair programs can be time consuming and relatively costly because each house to be repaired may have different needs that have to be approached individually. On the other hand, considerable economies of scale can be achieved when large numbers of standardized new homes are constructed. For these reasons, USAID/Dominican Republic decided to focus more heavily on new home construction. It used the savings from repairing fewer houses to pay for a higher standard of new home construction that included basic water and sanitation facilities.



Photograph: An OIG auditor interviews project beneficiaries in the Dominican Republic.

- An audit of USAID/Honduras' \$19 million housing program conducted in March and April 2001 concluded that housing activities were on schedule. The temporary shelter program was completed in November 2000 and exceeded the planned number of temporary shelters with 2,646 shelters constructed versus 2,100 planned. Permanent housing activities were on schedule to complete the planned 5,250 houses. As of March 31, 2001, 2,278 permanent houses were completed, 2,340 houses were under construction, and approximately 1,700 houses remained to be started.



Photograph: An OIG auditor interviews a housing site manager in Honduras.

- An audit of USAID/Honduras' credit activities showed that the activities were on schedule. In fact, the credit activity had exceeded the target level of loans as of March 31, 2001, when \$23 million had been disbursed for loans versus \$20 million planned.
- An audit of CACEDRF activities in the Eastern Caribbean concluded that the activities were on schedule. As of December 7, 2001, most activities were completed, although development of integrated coastal management plans was 90 percent complete and several construction activities were between 88 percent and 99 percent complete.
- In Guatemala, an audit of \$3 million in road and bridge repair activities concluded that one grantee was on schedule to complete 100 kilometers of road and 15 bridges. However, as of August 2000, a second grantee was behind schedule in reconstructing about 130 kilometers of road. This grantee was behind schedule because it had no previous experience in building roads or contracting for road construction and actual contract costs were about double the expected amount. In response to the OIG's audit, USAID/Guatemala and this grantee developed a plan to complete the planned 130 kilometers of road using equipment purchased under the grant and contributions from local communities, municipalities, and cooperatives.
- OIG auditors concluded that USAID/Nicaragua's \$35 million agriculture program was on schedule as of September 30, 2000, except for three activities

designed to improve coffee quality, create a self-sustaining credit facility, and rehabilitate rural roads. In response to OIG recommendations, USAID/Nicaragua and its partners reprogrammed coffee quality activities, took steps to find a local partner to assume responsibility for the credit facility, reduced the planned number of roads to be rehabilitated (due to cost increases that resulted from rehabilitating roads to a higher standard than originally planned), and obtained more detailed planning information from its partner for the road rehabilitation component. USAID/Nicaragua also developed a performance monitoring plan and began performing data quality assessments on information reported by its partners.

- In Haiti, an audit of the \$10 million Hurricane Georges Recovery Program found that, as of December 31, 2000, 27 of 31 activities reviewed were being implemented as planned; however, 4 activities were significantly delayed. One of these activities – consisting mainly of two watershed studies and related technical assistance – was delayed to the point that certain deliverables could not be provided by the end of the program. In response to an OIG recommendation, USAID/Haiti deobligated \$36,000 from an agreement with the U.S. Army Corps of Engineers that could not be effectively used by the end of the program.



Photograph: An OIG auditor speaks with project officials and beneficiaries of a potable water system in Haiti.

- As of December 31, 2000, USAID/Nicaragua’s water and sanitation activities, with \$10 million in CACEDRF funding, were on schedule except for one activity that was to construct seepage pits for disposing of wastewater from dishwashing, showers, and similar activities. This component was not implemented because a suitable design for the seepage pits could not be developed. In response to the audit, the mission decided to reprogram \$136,000 in CACEDRF funds for other uses.

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- In reviewing \$16 million in CACEDRF-funded agriculture activities in USAID/Guatemala, OIG auditors concluded that, as of March 2001, three of five activities reviewed were on schedule to achieve the planned outputs. The auditors could not tell whether the remaining two activities were on schedule because complete information was not available from the grantees. In response to the audit, USAID/Guatemala obtained and verified information on activities carried out by the two grantees and provided its activity managers with training on monitoring responsibilities and techniques.
 - In November 2000, the OIG examined \$100 million in water and sanitation activities in Honduras and found that the activities were significantly delayed. One grantee – the National Autonomous Water and Sanitation Service – was doing well in installing rural water systems and latrines but was behind schedule in installing urban water systems – as of September 30, 2000, these systems were expected to be 37 percent complete but were only 8 percent complete. This occurred primarily because of a delay in receiving USAID-provided construction materials. The second grantee – the Honduran Social Investment Fund – was also behind schedule in installing water, sanitation, and drainage works in urban areas and relocation sites for displaced persons. This grantee had grouped its major projects into procurement “bundles” to make them more attractive to U.S. construction firms. At the time of the OIG’s audit, only one of six procurement bundles was in the construction stage. Construction of the works included in the first procurement bundle was expected to be 22 to 30 percent complete but the actual percentage of completion ranged from 8 to 13 percent. In response to OIG audit recommendations, USAID/Honduras worked with its grantees to develop plans to make up for lost time.
 - When OIG auditors examined USAID/Honduras’ \$50 million road reconstruction activity in April 2000, the activity was not on schedule. Because implementation was proceeding more slowly than planned, and costs were higher than planned, the auditors concluded that planned activities could not be carried out within the planned budget or time frames. USAID/Honduras took numerous actions both before and following the OIG’s audit to speed implementation of the road reconstruction activity. In response to the audit, USAID/Honduras, in consultation with the Government of Honduras, revised the planned outputs, reducing unsurfaced road reconstruction from 2,000 kilometers to 1,246 kilometers while increasing bridge reconstruction from 2,000 linear meters to 4,494 linear meters. USAID/Honduras and the Government of Honduras also developed an accelerated implementation plan that involved (1) awarding additional contracts to construction firms with available capacity, (2) using indefinite quantity contracts to shorten the time needed to award contracts, (3) permitting the host government executing unit flexibility to shift activities between geographic areas and contractors based on weather conditions and contractor performance, (4) adjusting selection criteria to

ensure that only roads and bridges that can be completed by December 31, 2001 are selected for reconstruction, and (5) allowing the host government executing unit to hire additional staff.

Were host country contracting competition requirements followed? In both cases where the OIG examined whether host country contracting competition requirements were met, we found that the requirements were complied with:

- Under USAID/Honduras' road reconstruction activity, OIG auditors examined the complete procurement process followed for the first round of \$19 million in contracts for construction of roads and bridges. The auditors also examined the advertising for a second round of contracts expected to total about \$28 million. The auditors found that (1) procurement opportunities were appropriately publicized in the Commerce Business Daily and Honduran newspapers, (2) evaluation committees evaluated proposals or bids for every major procurement, and (3) awards were made to the most technically qualified and responsible offerors (for design and supervision services) or to the lowest responsible bidders (for construction services).
- For USAID/Honduras' water and sanitation activities, OIG auditors examined the procurement process for host country contracts totaling \$25 million. As with the road reconstruction activity discussed above, the auditors found that (1) procurement opportunities were appropriately publicized, (2) evaluation committees were used to evaluate proposals and bids, and (3) awards were made to the most technically qualified and responsible offerors or to the lowest responsible bidders.

Did USAID missions monitor CACEDRF activities in accordance with USAID policies? The OIG examined mission monitoring of CACEDRF activities through eight audits. Four of these audits showed that the missions were appropriately monitoring the activities in accordance with USAID policies. In three cases, the auditors concluded that monitoring was generally adequate but that some monitoring deficiencies existed. In one case, the auditors concluded that CACEDRF activities were not adequately monitored.

The missions that were appropriately monitoring activities used several monitoring methods, such as:

- Approving subcontracts and subgrants, work plans, construction sites and plans, and proposed key personnel when provided for in the underlying grant agreements and contracts.
- Maintaining regular contact with implementers through meetings, phone calls, and correspondence.

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- Performing regular site visits to obtain first-hand knowledge of the quantity and quality of outputs produced with USAID financing.
 - Reviewing quarterly or semi-annual financial and performance reports provided by contractors and grantees.
 - Reviewing deliverables provided by contractors.
 - Providing for evaluations and, in collaboration with the OIG, audits of CACEDRF activities.

The monitoring deficiencies or inadequate monitoring practices identified by the OIG included the following:

- In one case, a mission approved a work plan for road construction without carefully analyzing the realism of the cost estimates included in the plan. In addition, grantees made significant changes to work plans without advising the mission of the changes, and the mission's monitoring system did not detect these changes. For example, one grantee decided not to build four concrete bridges approved by the mission, replacing them with five bridges in other locations that the grantee considered more critical. In response to an OIG recommendation, the mission decided to hire an engineer to review plans and timetables submitted by grantees and to monitor construction through field inspections, review of progress reports, and meetings with project personnel.
- One mission had not provided written approval of sub-awards and housing construction sites as required. This was not considered a critical problem since the mission was working closely with its grantee on the design and implementation of the activity.
- One mission had not formulated plans for verifying information reported by grantees and contractors on results achieved and had not assessed the quality of information on actual results reported by its partners. In response to OIG audit recommendations, the mission developed a performance monitoring plan and began verifying the accuracy of reported information on results achieved.
- For one activity, a mission did not approve grantees' work plans, monitoring and evaluation plans, and sub-awards. In addition, while mission staff were performing site visits to observe activities carried out by grantees, the mission's monitoring was not as purposeful as it might have been with respect to monitoring the quantity and quality of outputs. In response to an OIG audit recommendation, the mission decided to provide its activity managers with training on monitoring responsibilities and techniques.

Did missions process payments and advances in accordance with applicable laws and regulations and USAID policies and procedures? The OIG performed three audits to examine whether missions were processing payments and advances in accordance with applicable laws and regulations and USAID policies and procedures. In light of the fact that several missions faced dramatically increased workload due to the CACEDRF program, these audits were intended to be preventive or proactive in nature and provide USAID management with assurance that the missions could handle the additional workload associated with CACEDRF payments and advances while still exercising reasonable scrutiny over payment and advance requests. All three of the audits showed that the missions were generally processing payments and advances correctly but some deficiencies existed.

With respect to advances, all three missions had established procedures whereby contract technical officers and financial management staff reviewed and approved advance requests. However, all three missions approved some advances (ranging from 20 to 85 percent of the advances examined by the auditors) that exceeded the grantees' immediate cash needs. In response to OIG recommendations, the missions implemented improved methods of approving new advances, monitoring outstanding advances, and/or collecting outstanding advances that were not needed by the grantees that received them.

With respect to payments, the missions correctly logged in payment vouchers, verified that invoices were arithmetically correct, made sure that payments were directed to correct payees, recorded payments correctly in their payment tracking and accounting systems, generally ensured that payments were made on time, and generally ensured that payments were in compliance with the terms of the underlying contracts and agreements. However, one mission made some late payments (13 percent of the payments reviewed by the auditors), and another mission made some payments (23 percent of the payments reviewed) that were not in full compliance with the underlying contracts or agreements. In response to OIG recommendations, one mission improved its payment policies and the second mission provided additional training to its staff and provided them with easier access to the Federal Acquisition Regulations and the USAID Acquisition Regulations.

**Management
Comments and
Our Evaluation**

The LAC Bureau's comments on the draft report noted that the report did not contain any recommendations for the Bureau's action and expressed appreciation for the role played by the OIG in the CACEDRF program. The LAC Bureau's comments are attached in their entirety in Appendix II.

**Scope and
Methodology**

Scope

This report is not an audit report. The report was prepared in accordance with the general standards portion of generally accepted government auditing standards. The overall purpose of the report is to summarize the results of the OIG's individual audits of the CACEDRF program and it did not involve any additional audit work.

Methodology

Since this report is a summary of previous OIG audit reports on the CACEDRF program, preparation of the report primarily involved a review of all audit reports on CACEDRF activities issued as of June 30, 2002, as well as discussions with audit and investigations staff involved in oversight of the CACEDRF program.

**Management
Comments**

MEMORANDUM

TO: IG/A, Toby Jarman

FROM: AA/LAC, Adolfo A. Franco

SUBJECT: Summary Draft Report On Audits For
The CACEDERF Supplemental Appropriation

Thank you for your recent memorandum conveying the draft Summary Report on Audits of USAID Assistance Provided Under the Central America and the Caribbean Emergency Disaster Recovery Fund (CACEDERF) Supplemental Appropriation.

We note your confirmation that there are no outstanding recommendations which require our action. However, I would like to take this opportunity to express our Bureau's appreciation for the exceptional level of cooperation and support which your office provided during the course of this critical program's implementation. We are very proud of the job which LAC and our field missions accomplished in managing this massive reconstruction program but it would not have been possible without the vital oversight and accountability of the Office of the Inspector General.

I know that I speak for all of our LAC officers by expressing to you my thanks for a job very well done.